Challenges to the availability of multi-family housing in Sedona

Community Development Department
Development Services
102 Roadrunner Drive Sedona, AZ 86336
(928) 282-1154 · www.sedonaaz.gov/CD

One of the Community Plan's goals is to "Encourage diverse and affordable housing options." Yet there is a wide variety of challenges to doing so, including:

- A diminishing supply of vacant land
- Zoning limitations (as described above)
- The cost of land
- The historic trend in Sedona for single-family homes

Development Limitations

Over the past few years, several developers have expressed a desire to develop multi-family and apartment complexes with a goal of tapping into the demand for local workforce housing. During these conversations developers often express concern and frustration with one or more of the following:

- Density limit of 12 units/acre
- Cost of land
- Sewer connection fees
- Development impact fees
- Requirements for affordability
- Development standards (e.g. parking, height, site coverage)
- Approval and permitting process (e.g. length and controversy)

To develop a multi-family project that provides elements of affordability and housing choice, without some kind of financial subsidy, higher densities are crucial to make a project viable. The city's density limit of 12 units per acre is often cited by potential developers as too low to support diverse multi-family housing options, including affordable units.

To build a project such as an apartment complex, developers need to offset the costs of development. A greater number of units allows fixed costs (e.g. land, road improvements) to be distributed among more units, resulting in reduced costs per unit. Another factor that contributes to consumer affordability is unit size; smaller units typically rent for lower prices than larger units. However, in order for a project with smaller units to work financially for the developer, the number of units needs to increase. Given the current density maximum of 12 units per acre, developers do not have the option of building more units and will instead build larger units in order to recoup their investment, which tend to be at a higher price point. In an Urban Land article "Why Aren't More Small Apartment Projects Built?", the author, Beth Mattson-Teig, highlights the fact that the effort to design, develop, and receive entitlements for a small project (less than 50 units) is roughly equal to the effort to develop a large project (more than 150).

Cost of Housing

Sedona's median price home in 2016 was $479,000 and appears to be climbing in 2017. In 2006-2007 the median price was approximately $600,000 and dipped to $330,000 in 2011. In 2003 when the Housing Commission was established, the median price of approximately $420,000 was considered unaffordable for most of Sedona's workforce. According to the City of Sedona Human Resources Department and the Sedona Unified School District, in 2011, the average salaries for service employees such as police and teachers were in the range of $38,000-$50,000. The Yavapai College Regional Economic Center Report entitled "Verde Valley Economic & Workforce Analysis 2017" states that the average earnings in 2016 were $39,312. Even at salaries of up to $50,000, a median priced home in

Sedona is unaffordable. For those unable to afford to buy a home in Sedona, there is a need for alternative types of housing.

Vacation Rentals

Effective January 1, 2017 a State senate bill (SB 1350) ended the prohibition on short-term vacation rentals in Sedona (A.R.S. § 9-500.39). The statute defines vacation rentals as:

> *"Vacation rental" or "short-term rental" means any individually or collectively owned single-family or one-to-four-family house or dwelling unit or any unit or group of units in a condominium, cooperative or timeshare, that is also a transient public lodging establishment or owner-occupied residential home offered for transient use if the accommodations are not classified for property taxation under section 42-12001. Vacation rental and short-term rental do not include a unit that is used for any nonresidential use, including retail, restaurant, banquet space, event center or another similar use.*

Based on this definition, properties that may have been previously used as long-term housing rentals can now be used as vacation rentals and include: single-family homes, duplex/fourplex (1-4 units), guest homes, accessory dwelling units (ADUs), and condominiums/townhouses. Many of these have been long-term rental housing options (both single-family and multi-family) that are being converted to vacation rentals, which in many cases have led to the eviction of renters forced to find housing elsewhere.

ADUs were originally intended to help increase the inventory of affordable housing. However, with the passage of SB 1350 the city's ADU regulations were repealed, as ADUs may now be used as vacation rentals. Thus, the allowance for vacation rentals has resulted in a smaller pool of rental housing, exacerbating the issue of housing availability and affordability, including increases in monthly rental rates and substandard living conditions.

Substandard Housing

As a tourist destination with a high cost of living, the city has seen substandard housing in the past; however with the increasing number of conversions to vacation rentals and displaced renters looking for new housing options, the amount of substandard and unsafe housing has increased. City code enforcement staff has seen more complaints and concerns about unusual, illegal, and unsafe living conditions. Often, the people found to be living in these conditions are employees working in the city. Some property owners have seen the need as an opportunity and have illegally converted buildings to create spaces for rent that are often not habitable. There have been cases of unpermitted (and often unsafe) building additions or building interiors being divided up to create more space to rent. Examples of other substandard housing that has been encountered include: storage units, garages, sheds, walk-in closets, crawl spaces underneath a house, as well as people living in cars or camping.

The Housing Issue in Context

Since incorporation, the city has recognized the need for diverse and affordable housing. It was addressed in the first Plan in 1991 and each subsequent update. For many years, neighboring communities such as Cottonwood and Camp Verde have met a great deal of Sedona's housing needs. It has been historically recognized that Sedona itself could never address the full spectrum of affordable and diverse housing needs and that any solution would require a regional aspect. The Verde Valley region's housing needs are also increasing, and with Cottonwood growing, their supply of housing for both cities may not be able to keep up with the demand.

Responding to these concerns, City Council established a Housing Commission in 2003 for the purpose of examining ways to improve the city's role in creating additional housing opportunities. The importance of this issue was reaffirmed in 2004 as City Council included affordable housing as one of their top five priorities, and it remains a Council priority today.

This is not only a local issue. According to the Urban Land Institute's 2015 report "Preserving Multifamily Workforce and Affordable Housing":

> *America's multi-family housing stock for "lower- and middle-income renters"—those who earn up to the area median income (AMI)—is slowly but surely disappearing. The often-overlooked apartment properties that provide decent, affordable homes for millions of workers, senior citizens, and young children in households with modest incomes exist in all parts of the country. These "workforce and affordable" properties are an essential element of our national infrastructure and the fabric of our local communities. They will not likely be replaced in nearly the numbers that are needed, absent unforeseen policy interventions.*
>
> *The continued loss of this critical if underappreciated real estate asset class, already playing out in many markets, will impose ever-greater social and economic costs on our country in the years ahead. "Preserving" the nation's existing housing for lower- and middle-income renters—ensuring that it remains in good physical condition and affordable to households that most need it—must be a top priority for the real estate community, public officials, and the nation as a whole.*

The mix of housing types available is also not keeping up with changes in preferences. The National Multifamily Housing Council stated:

> *Importantly, this supply-constrained market comes at a time of historic growth in renter households. Changing lifestyle preferences and major demographic shifts are driving growing apartment demand. Only five times since 1966 has the annual growth in renter households exceeded one million; three of those have been in the last four years.*
>
> *The 76 million Baby Boomers who may consider downsizing their homes and moving to more walkable neighborhoods where rental housing is prevalent are just part of what's driving the growth of renter households to historic levels. There are also the nearly 80 million Millennials who will create up 25 million new households from 2015-2025. Their preferences, which initially favor rental housing, will reshape housing demand. Finally, the primary driver of suburban development—married couples with children—has fallen from 44% of households in 1955 to under 20% today, and that number continues to fall.*